

Message Text

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ORIGIN ARA-10

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TO AMEMBASSY LIMA PRIORITY

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E.O. 11652:GDS

TAGS: EINV, EMIN, EGEN, EIND, PFOR, PE

SUBJECT: CUAJONE -- SUPPLEMENTARY FINANCING CRISIS

1. ON APRIL 30, ASARCO'S CHARLES BARBER INFORMED DEPARTMENT THAT SOUTHERN PERU COPPER CORPORATION IS NOW ON "COUNT-DOWN" REGARDING PROCEDURES WHICH MAY BE REQUIRED TO "WIND UP THE CUAJONE PROJECT", I.E. STEPS REQUIRED TO TURN THE CUAJONE PROJECT OVER TO BANKS OR THE GOP. HE SAID SPCC IS RUNNING OUT OF MONEY AND TIME. THE FIRM HAS NOT YET OBTAINED JUDGEMENT FROM GOP ON TAX CASE AND IT CANNOT OBTAIN FINANCING FROM ITS PRINCIPAL BANKER, CHASE MANHATTAN, UNTIL IT DOES. HE NOTED THAT ON AVERAGE NINETY (90) DAYS REQUIRED FOR LOAN ADMINISTRATIVE PROCEDURES BETWEEN AGREEMENT WITH BANKS AND ACTUAL ACCESS TO MONEY. AS ASARCO'S CURRENT AGREEMENTS WITH BANKS EXPIRE ON JULY 30 AND PAYROLLS, ETC. MUST BE MET AFTER THAT DATE, ASARCO AND SPCC HAVE BEEN FORCED TO BEGIN TO PREPARE FOR WORST. THEY ARE AT "FISH OR CUT BAIT" STAGE WITHIN NEXT FIFTEEN DAYS IN THEIR RELATIONS WITH "LEADER" BANKS (FNCB, CHASE, AND MORGAN),

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EXIM, AND GOP (RE TAX CASE).

2. BARBER SAID THAT AT SPCC BOARD MEETING IN NEW YORK APRIL 29 OTHER THREE COMPONENT FIRMS (CERRO, NEWMONT, AND PHELPS DODGE) REPRESENTATIVES NOTIFIED ASARCO THAT THEIR

FIRMS WERE NOT WILLING TO "GIVE UNLIMITED GUARANTEES TO THE BANKS". ASARCO CANNOT PUT UP MORE MONEY ITSELF BECAUSE IT FEELS IT CANNOT BET SO HEAVILY ON A SINGLE PROJECT. HE NOTED THAT FIRMS HAVE ALREADY AGREED TO PROVIDE ANOTHER \$45 MILLION IN ADDITIONAL EQUITY FUNDS.

3. BARBER EMPHASIZED EXIM'S ATTITUDE TOWARD FURTHER LENDING TO CUAJONE PROJECT IS CRITICAL, ESPECIALLY TO "WEST COAST" BANKS. REFERRING TO EXIM'S DESIRE FOR GUARANTEES FROM THE GOP, HE SAID THAT HE WAS TOLD THAT CHASE FEELS POLITICAL ASSURANCES WHICH EXIM SEEKS FROM GOP WILL DO BANKS NO GOOD; CHASE AND OTHER BANKS SEEK WIDER GUARANTEES AND CREDIT FROM EXIM.

4. CONCERNING SPCC'S TAX PROBLEMS, BARBER SAID THAT FIRM WAS STILL FACING "QUORUM" PROBLEMS IN TAX TRIBUNAL. HE HAS HEARD COURT STILL REQUIRES ANOTHER JUDGE. HE IS HOPEFUL, HOWEVER, THAT THERE WILL BE A DECISION SHORTLY BECAUSE IN HIS EXPERIENCE "GOP ACTS QUICKLY WHEN IT MUST" -- AND IT NOW KNOWS SPCC'S PLIGHT. HE SHOWED CARLOS SANTISTEBAN AND GEN. LOAYZA, WHEN THEY WERE IN NEW YORK, A LETTER ASARCO HAD RECEIVED FROM CHASE INFORMING FIRM CHASE WOULD NOT CONSIDER FURTHER LENDING FOR CUAJONE UNTIL THE MARCONA AND SPCC TAX MATTERS WERE RESOLVED. BARBER ACQUAINTED BOTH MEN WITH FINANCING DEADLINES. SANTISTEBAN TOLD HIM THAT "TRIBUNAL MUST BE ALLOWED TO REACH ITS DECISION", BUT ADDED THAT ONCE IT HAD DECIDED MATTER WAS WITHIN JURISDICTION OF MINISTRY OF FINANCE AND CENTRAL BANK. HE TOLD BARBER THAT IF JUDGEMENT GOES AGAINST SPCC, GOP WOULD BE PREPARED TO PROTRACT PAYMENT OF TAX ARREARS.

5. COMMENT: BARBER, OF COURSE, WAS LOBBYING FOR DEPARTMENT SUPPORT WITH EXIM AND PERHAPS INDULGING IN A BIT OF BRINKSMANSHIP AS WELL. NEVERTHELESS, IT IS CLEAR THAT SPCC IS INDEED RUNNING OUT OF TIME AND MONEY. EXIM FEELS LIMITED OFFICIAL USE

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VERY STRONGLY THAT ASARCO ITSELF MUST PROVIDE VERY FULL PROTECTION AGAINST ECONOMIC RISKS TO LENDERS BEFORE EXIM PROCEEDS FURTHERWITH GOP REGARDING POLITICAL RISK ASSURANCES.
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